



VERMONT PUBLIC
SERVICE BOARD

2016 OCT 17 PM 2 31

October 17, 2016

Judith C. Whitney
Vermont Public Service Board
112 State Street
Montpelier, VT 05620-2701

Re: Docket No. 7970 – October Quarterly Cost Estimate Update

Dear Ms. Whitney:

This filing provides the quarterly Cost Estimate Update (“Update”) for the Addison Natural Gas Project (“Project”) and updated information from the last cost estimate update submitted in July, 2016.

We are pleased to report that all of the Project’s transmission pipeline is installed, except for the approximately 2,000 feet in Geprags Park in Hinesburg. Clean up work is on track and scheduled to be completed in the next few weeks. All horizontal directional drills (“HDD”) have also been completed ahead of schedule. The only remaining significant construction work is the HDD under Geprags Park. With timely access to Geprags Park, the Company is prepared to complete the Project in 2016. As shown in the Update, the Project budget forecast remains at \$165.6 million.

Earlier this month, the Company tested and filled the section of the project from Williston to Hinesburg (north of Geprags Park), approximately eight miles, with natural gas. We are currently working on testing and filling with natural gas the lower 22-mile-section, from Hinesburg (south of Geprags Park) to Middlebury, which we expect to complete in November. This will allow us to put the entire project in service and begin serving customers in a timely, efficient way promptly after the Geprags Park HDD installation is complete.

The attached Update presents the most recent assessment of the current forecast and Project costs, compared to the July, 2016 quarterly update. Key changes include:

Construction: An additional HDD was added for Geprags Park. In addition, the Company experienced further rock-removal requirements, increased costs associated with mainline construction change orders, and additional costs for testing and commissioning two sections of the pipeline rather than one 31 mile continuous section due to the delayed access to Geprags Park.

Procurement: Additional costs associated with HDD pipe required for the Geprags Park, and extra inspection costs associated with mainline change orders, including the postponed access to Geprags Park.

Right of Way: Increased costs in right of way acquisition related to eminent domain proceedings and final negotiations with the town of Hinesburg.

Overhead: Transfer of specific overhead costs to other cost categories to simplify tracking of specific events (e.g., protest events).

Project Management: Additional costs relating to contract closeout support.

Since the last quarterly filing, the Company has reached agreement with the Town of Hinesburg regarding an easement for Geprags Park and received a Board Order granting access to Geprags Park. The seven individual, non-owner intervenors in that eminent domain proceeding have sought reconsideration of the Board's Order and have filed an appeal to the Vermont Supreme Court, further delaying the Company's access to the park.

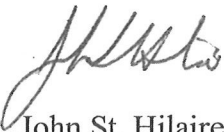
As noted above, delayed access to the remaining 2,000-foot parcel in Hinesburg has already added costs to the Project and further delays will continue to increase costs. The Company may seek to recover these additional costs as an exception to the \$134 million cost recovery cap at a later date.

Vermont Gas is prepared to complete this Project and begin serving families and businesses in Addison County as soon as we have access to the Park to complete the HDD.

We have provided two copies of this filing to the Public Service Department and one copy to each party on the service list.

Thank you for the opportunity to share this update. We will keep you apprised of our progress as work continues.

Sincerely,



John St. Hilaire
Vice President, Operations

Attachment

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October 2016 Phase 1 Quarterly Cost Estimate Update

Activity	Budget Baseline (A)	Prior Forecast (B)	Forecast Adjustments (C) = (D-B)	Current Forecast (D)	Project Cost Incurred through 9/30/16
Project Management	\$ 7,245,606	\$ 11,980,318	\$ 87,116	\$ 12,067,434	\$ 11,854,122
Engineering and Design	\$ 4,019,136	\$ 4,181,531	\$ (116,534)	\$ 4,064,997	\$ 4,049,997
Permitting ...	\$ 4,577,123	\$ 5,321,052	\$ 60,581	\$ 5,381,633	\$ 5,006,826
Environmental	\$ 2,025,640	\$ 2,077,295	\$ -	\$ 2,077,295	\$ 1,967,003
Procurement	\$ 16,265,381	\$ 15,644,824	\$ 624,714	\$ 16,269,538	\$ 15,878,756
Right of Way	\$ 12,203,771	\$ 15,612,432	\$ 171,623	\$ 15,784,055	\$ 15,194,974
Construction	\$ 76,417,509	\$ 92,639,911	\$ 2,665,028	\$ 95,304,939	\$ 91,463,460
Overhead	\$ 15,640,000	\$ 13,686,836	\$ (105,873)	\$ 13,580,964	\$ 13,195,084
Project Forecast	\$ 138,394,166	\$ 161,144,199	\$ 3,386,656	\$ 164,530,855	\$ 158,610,221
Contingency	\$ 15,216,167	\$ 4,434,168	\$ (3,386,656)	\$ 1,047,512	n/a
Total With Contingency	\$ 153,610,333	\$ 165,578,367	\$ -	\$ 165,578,367	\$ 158,610,221

Prior Forecast: Reflects forecast as of last quarterly cost estimate update of July, 2016

Project Costs Incurred through 9/30/16: Includes actuals and accruals through September 30th, 2016

Primary Drivers of Forecast Adjustments:

- **Construction:** an additional +\$1.5M for horizontal directional drill with support at Geprags Park, increased construction and inspection costs tied to schedule additions from mainline change orders, further rock-removal requirements and miscellaneous landowner commitments
- **Procurement:** replacement pipe and specialized coating requirements for Geprags HDD, delivery charges and extra welding inspection costs tied to mainline change orders
- **Right of Way:** Increased costs in right of way acquisition, including costs of Geprags eminent domain proceedings and negotiations
- **Overhead:** Transfer of specific overhead costs to construction WBS to simplify tracking of similar activities (i.e., protest events)
- **Project Management:** Additional costs relating to contract closeout support